

**Commonwealth of Massachusetts
Department of Telecommunications and Energy**

Request for Comments)	
On the Procurement of Default)	D.T.E. 04-115
Service Power Supply for Residential)	
And Small Commercial and Industrial)	
Customers.)	

WPS ENERGY SERVICES, INC.'s REPLY COMMENTS

I INTRODUCTION

WPS Energy Services, Inc. (“WPS Energy Services”) is a diversified energy supply company that currently supplies energy and energy services in a twenty state region with principle retail operations in the states of Illinois, Michigan, Maine, Ohio, and Wisconsin. Primary product and service offerings include natural gas, electric power, alternative fuels, real-time energy management and energy utilization consulting. Our 200-plus employees working throughout the Midwest and Canada have core competencies in the following areas: Gas Supply, Risk Management, Power Marketing, Electric Energy Consulting, Energy Delivery Management and Governmental Aggregation Services. We provide competitively priced energy supplies, innovative supply and price strategies and exceptional customer service and responsiveness. We have participated in both wholesale auctions and retail aggregation processes in states from New Jersey, Maine, and Ohio. WPS Energy Services provides default service in Maine, and, as a municipal aggregation supplier to communities in northern Ohio, WPS Energy Services also provides alternative supply to default service.

II. COMMENTS

The Massachusetts Department of Telecommunications and Energy (“Department”) requested comments on procurement-related issues of interest. The Department invited commenters to submit proposals regarding the number of solicitations that, in conjunction with procurement terms and the manner of procurement, would best ensure that smaller customers receive benefits (e.g., a portfolio approach).

Question 1. Would smaller customers be better served if power supply for default service is procured using a portfolio of more than two solicitations? Please discuss the advantages and disadvantages of increasing the number of solicitations used to procure default service supply.

Response:

The first issue to resolve is “What is the role of default service?” Fundamentally, default service should be last resort in nature and should not be intended as the best price alternative for customers. WPS Energy Services agrees with the view shared in the Initial Comments of the Cape Light Compact at page 3: “With respect to the period following the seven-year standard offer period, the ACT established default service merely as a service of last resort for a customer who has failed to select a competitive supplier or whose competitive supplier fails to provide contracted services.”

In a competitive market, a default or fallback rate should be designed so that it discourages customers from remaining on it indefinitely. Generally, the notion of default includes an element of failure. In the case of default electric service, it should be available for those who fail to choose (when competitive alternatives exist), for those that have no choice (when there are no competing suppliers), or in the event an alternative

supplier fails to deliver. Obviously, the design of the default service will influence customer desire to remain on default service or choose a different supplier. It will also influence an alternate supplier's interest in making competitive offers. If the default service price is attractive, buyers will be comfortable and will stay on default service and competitors will be discouraged from competing or making offers. The converse is true if default service is based as the back-up and is set at a higher rate.

Calpine Corporation recommend issuing solicitations four times a year with each solicitation procuring default service for 25% of the requirement for a one-year duration. "Increasing the frequency of solidifications would provide smaller customers with the benefit of time averaging of procurement prices and in turn stabilize prices over the solicitation period." (See Calpine at 3). WPS Energy Services agrees. If the goal is to serve the least amount of customers as possible on default service, then the number of solicitations should be many for short durations for the whole load to send customers more accurate market price signals. Customers who want to avoid the fluctuating price would seek alternate supplier, fixed-priced offers for fixed periods of time. A single or few solicitations fixing the price for the whole load for long durations will send a price signal only reflecting the market conditions at the time of the solicitation and would not reflect the variation in cost based on customer location. Competition would suffer to the extent market prices move up or down from the single solicited, fixed-price for the whole load.

The Cape Light Compact opined that the Department should ensure that any changes in default service procurement policy promote, rather than undermine, municipal aggregation in the Commonwealth. (See Cape Light at page 6.) WPS Energy Services

agrees with the Cape Light recommendation. Simultaneous to determining the best way to serve default customers, the Department should explore changes to promote retail competitive market development through “opt-out” aggregation similar to the legislative and regulatory provisions in the State of Ohio. Contrary to larger commercial and industrial customers, small commercial and residential customers ordinarily lack the buying power to shop for lower-priced energy on their own. Municipal aggregation levels the playing field.

In addition, customer acquisition cost for most energy marketers is generally prohibitive for small retail customers. Municipal “opt-out” aggregation service provides the small retail customer an opportunity to participate in the retail competitive market and experience savings through minimal effort, while offering the energy marketer the critical mass needed to create buying power and develop a competitive program offer. WPS Energy Services has successfully supplied electric generation service to municipal aggregation programs that serve approximately 100,000 customers in communities in northern Ohio. Service to these programs began in May 2001, and consumers have saved over \$6.6 million through September of 2004. Clearly, municipal aggregation has its advantages.

Question 3. Would smaller customers be better served if power supply for default service was procured on a statewide basis? Please discuss the advantages and disadvantages of using a statewide approach to default service procurement.

Response:

Several commenters offered no firm opinion regarding statewide purchase of default service. (See Initial Comments of UWUA Local 369 at page 7 and Fitchburg Gas and Electric Light Company (“Unitil”) at page 5.) This uncertainty may be due to the

fact that the question seeks responses to a hybrid design that offers competitive wholesale market value to retail customers for default service. This is different from developing a wholesale rate or a competitive retail default service rate for retail customers. While each approach has advantages and disadvantages, the implied hybrid would require a methodology that translates the statewide wholesale rate into retail rates. As discussed by Unitil, there are complex factors to consider. Since there are no working models of this hybrid, the Department must develop its own methodology. Selecting one approach over the other, and avoiding the hybrid, may be easier and just as effective.

Question 4. Would smaller customers be better served if power supply for default service was procured using an auction process (e.g., descending clock) rather than through requests for proposals? Please discuss the advantages and disadvantages of using an auction process to procure default service. In particular, please discuss whether using an auction is likely to produce lower default service prices.

Response:

No single view was shared by the commenters. WPS Energy Services offers that it has responded successfully under both formats and have found that it generally depends on how well the auction is administered and/or how fairly the request for proposal process is handled.

Question 5. Although the term “default service” is statutory, G.L. c. 164, § 1, it has confused some customers because of its unintended suggestion of nonfeasance in performing a legal or contractual obligation. Is there some better or more descriptive term that ought to be used by the distribution companies on and after March 2005?

Response:

As discussed above, the name used to describe this service should discourage customers from remaining on the service. Helpful names were offered by the

commenters. Alternative names could include: Fall Back Service or Last Resort Service.

Thank you for the opportunity to respond.

Respectfully submitted,

A handwritten signature in cursive script, reading "Ivan L. Henderson".

Ivan L. Henderson
Manager of Regulatory Affairs
WPS Energy Services, Inc.